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NEA FOR FRONT OFFICE AND NEA/IPA; NSC FOR SHAPIRO/KUMAR

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SUBJECT: PM FAYYAD: SETTLEMENTS AND PALESTINIAN ECONOMIC
PRIORITIES

REF: JERUSALEM 1498

Classified By: Consul General Daniel Rubinstein for reasons 1.4 (b) and
(d).

¶1. (S) Summary: PA Prime Minister Salam Fayyad told the
Consul General on September 8 that a deal on settlements with
the GOI needed to be "inclusive" or otherwise risked
undermining U.S. credibility. He noted that West Bank
economic growth continued to exceed expectations, but warned
that, absent "something really dramatic" from the GOI, it
could not be sustained. End Summary.

¶2. (U) Consul General paid an introductory call on PM Fayyad
on September 8 in Ramallah. Fayyad was joined by his
special assistant Manal Zeidan.

On Settlements: Better All or Nothing

¶3. (S) Fayyad expressed concern about press reports that a
U.S.-Israeli "deal" on settlements is near conclusion, and
that it would allow continued settlement construction in the
West Bank and not include Jerusalem. Exemptions to a freeze
would be "completely disastrous" for the Palestinian
leadership, he said. The number of units reportedly
excluded, he claimed, would approximate the pace of building
in recent years. "It would be better for U.S. credibility,"
Fayyad said, "for you to say you tried and failed" rather
than be seen as "putting the best face on a very bad
situation." The Consul General responded that S/E Mitchell
would be in the region shortly, and the PM should wait to
hear directly from the Senator.

West Bank Economy:
Burning Brightly, or Flaming Out?

¶4. (C) Turning to the economy, Fayyad expressed appreciation
for U.S. budget support, as well as U.S. efforts to secure
Saudi Arabia's contribution (reftel). These two donations
will keep the PA above water through October, but "then we
will start to have problems," he said. He encouraged
"relentless" efforts to secure additional Kuwaiti support.
He called Kuwait the Arab nation most behind in its payments,
based on the 2002 Arab League Summit (alongside Libya). He
lamented that Qatar can count donations to the Hamas-led PA
in 2006 and 2007 against their Arab League quota, "though
they've given nothing to my government." (Septel on
Palestinian impressions about potential changes in Qatar's
approach to aid to the PA.)

¶5. (C) Fayyad said the West Bank "is doing better than
everyone is saying." He said the World Bank and IMF had been
both too slow and too cautious in estimating economic growth.
There are signals, he said, of real expansion, including

demand for non-essential goods and increased business expenditures on advertising. Fayyad "doesn't believe" the claim that growth is mainly the result of Israeli relaxations on movement and access. "The easing has only been in recent months, and can't account for growth that began in late 2007." The one easing that made a difference, he said, is improved access for Israeli Arabs to the West Bank, with Nablus as the primary beneficiary.

16. (C) The improvement in the West Bank economy, Fayyad said, can be directly traced to a massive increase in government spending. "Thanks to donors, we were the first to launch our stimulus package," he said. Government spending, including the repayment of large amounts of arrears, drove economic performance in 2008 and 2009. (Fayyad's economic advisor, Karim Nashishibi, claims the injection of cash amounted to ten percent of Palestinian GDP.) However, given that assistance levels will not increase year-on-year, "we need something really dramatic from the GOI" in order to stimulate the private sector, he said. And while the PA would continue to stress the importance of removing checkpoints, the real obstacle to private sector growth, he said, is a restrictive Israeli framework of "permits, regulations, practices, and uncertainty."

RUBINSTEIN